

Message Text

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PAGE 01 BERN 03397 01 OF 02 270745Z
ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 IO-14 SP-02 USIA-15 AID-05
EB-08 NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01
CEA-01 CIAE-00 COME-00 FRB-01 INR-07 NSAE-00
XMB-04 OPIC-06 LAB-04 SIL-01 /118 W
-----092275 270931Z /21

R 270710Z JUL 77
FM AMEMBASSY BERN
TO SECSTATE WASHDC 4689
INFO AMEMBASSY ALGIERS
AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

UNCLAS SECTION 1 OF 2 BERN 3397

USDEL MTN ALSO FOR MISSION, USOECD ALSO FOR EMBASSY

PASS TREASURY AND FRB

EO 11652: NA
TAGS: EFIN SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK OF JULY 24-30

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC
SLIPPED TO SF 2.39. SHARE PRICES FELL ABRUPTLY
FOR CREDIT SUISSE AND BALLY FOLLOWING PRESS
REPORTS OF NEW DEVELOPMENTS IN THOSE AFFAIRS.
SWISS NATIONAL BANK REPORTED MONEY SUPPLY (M1)
WAS WITHIN RANGE OF 5 PERCENT ANNUAL GROWTH
RATE DURING APR-JUN. CAPITAL EXPORTS IN
FIRST HALF 1977 WERE BELOW THOSE OF FIRST HALF
1976. PROPOSAL FOR BANK DEPOSIT INSURANCE PLAN
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PAGE 02 BERN 03397 01 OF 02 270745Z

IS EXPECTED LATER THIS YEAR. GENEVA CLAIMS
COURT PUBLISHED ORDER FOR ALGERIA TO PAY COURT
COSTS OWED SINCE 1974. END SUMMARY.

2. FOREIGN EXCHANGE AND GOLD: DOLLAR RATE
AGAINST SWISS FRANC SLIPPED FURTHER IN NERVOUS
MARKET. DOLLAR TRADED AT SF 39.20 TUESDAY,

LOWEST SINCE JUN 2, 1976. SWISS NATIONAL BANK INTERVENED HEAVILY TO SUPPORT DOLLAR RATE WITH LIMITED RESULTS. HOWEVER, DM RATE AGAINST THE FRANC APPRECIATED. GOLD PRICE ROSE SLIGHTLY IN RELATIVELY ACTIVE MARKET, FLUCTUATING BETWEEN 143 AND 145. DEALERS PREDICTED SLIGHTLY HIGHER PRICE OVER SHORT TERM. THEY SAID LOWER INDUSTRIAL DEMAND SHOULD BE OFFSET BY REDUCED SOUTH AFRICAN PRODUCTION, INCREASED NEAR EAST DEMAND AND IMPACT OF FOREIGN EXCHANGE MARKET DEVELOPMENTS. RATES FOLLOW:

	7/18 (OPEN)	7/22 (CLOSE)
SPOT DOLLAR	2.4070	2.3958
FORWARD DISCOUNTS (PERCENT PER ANNUM)		
ONE MONTH	3.09	3.25
TWO MONTHS	2.82	2.93
3 MONTHS	2.74	2.88
6 MONTHS	2.73	2.75
12 MONTHS	2.66	2.71
SF/DM	105.63	106.08
GOLD	143.75	144.5

3. CAPITAL AND MONEY MARKETS: PRICES FELL ABRUPTLY FOR CREDIT SUISSE AND BALLY SHARES; SKA INDEX (1959 EQUALS 100) SLIPPED TO 219.3. AVERAGE UNCLASSIFIED

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PAGE 03 BERN 03397 01 OF 02 270745Z

YEILD CONFEDERATION BONDS DECLINED TO 4.20. SNB REPORTED DOMESTIC CREDIT ROSE SF 1.42 BILLION IN MAY TO SF 129.7 BILLION, UP 9.7 PERCENT FROM MAY 1976, WHICH PARTLY REFLECTED CREDIT SUISSE TAKEOVER OF TEXON LIABILITIES. NEUE ZUERCHER ZEITUNG (NZZ) REPORTED THAT CAPITAL EXPORTS DURING FIRTS HALF WERE SF 4.5 BILLION, COMPARED TO SF 7.2 BILLION IN FIRST HALF 1976, AND EXPECTED THAT TOTAL 1977 CAPITAL EXPORTS WOULD FALL SHORT OF SF 19.1 BILLION IN 1976. NZZ NOTED FEWER FIRST-CLASS FOREIGN BORROWERS THIS YEAR AND THAT SEVERAL LOANS HAVE BEEN REPAID EARLY, TO AVOID REPAYMENT IN APPRECIATED SWISS FRANCS OR TO REFINANCE AT LOWER INTEREST RATE. PRIVATE FOREIGN BANKS AND COMPANIES BUT NOT GOVT ENTITIES, AFTER JULY 11 MAY TAKE SUBPARTICIPATION IN SWISS BANK CONSORTIUM UNDERWRITING SWISS FRANC LOANS, PROVIDING FOREIGN PARTICIPANTS AGREE TO MAINTAIN THEIR SHARE FOR THEIR OWN ACCOUNT FOR TERM OF LOAN. BANK FOR INTERNATIONAL

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PAGE 01 BERN 03397 02 OF 02 270926Z
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UNCLAS SECTION 2 OF 2 BERN 3397

USDEL MTN ALSO FOR MISSION, USOECD ALSO FOR EMBASSY

PASS TREASURY AND FRB

SETTLEMENTS REPORTED SWISS BANKS IN 1976 HAD
NET INCREASE OF \$47.3 BILLION IN LOANS TO
FOREIGNERS IN SWISS AND FOREIGN CURRENCIES.

4. MONETARY POLICY: SNB REPORTED THAT
M1 ANNUAL GROWTH RATE EXCEEDED 5 PERCENT GOAL
DURING FIRST QTR 1977 BUT WAS 5.5 PERCENT
IN APR, 4.4 PERCENT IN MAY AND ON TARGET FOR
JUNE. NZZ EDITORIAL SAID DECREASED CAPITAL
EXPORTS COULD HAMPER CONDUCT OF MONETARY POLICY
THROUGH SNB FOREIGN EXCHANGE PURCHASES WHICH ALSO
AIM AT RELIEVING UPWARD PRESSURE ON SWISS FRANC.
FIRST HALF 1977 FOREIGN EXCHANGE PURCHASES
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PAGE 02 BERN 03397 02 OF 02 270926Z

EQUALLED CAPITAL EXPORT CONVERSIONS OF SF 4.5
BILLION, COMPARED WITH PURCHASES OF SF 10.9

BILLION AND EXPORTS OF SF 7.2 BILLION IN FIRST
HALF 1976. NZZ SAID 1977 TREND REVEALED
LIMITATIONS OF SNB POLICY MECHANISM WHICH HAD
MADE IT DIFFICULT TO DEFEND FRANC RATE DURING
RECENT WEEKS. EDITORIAL ALSO STRESSED THAT
UNLESS NEW BORROWERS CONTINUE TO PROVIDE CAPITAL
EXPORTS VIA SWISS FRANC LOANS, CURRENT
OUTSTANDING LOANS TO FOREIGNERS CARRY RISK OF
ADDITIONAL PRESSURE ON FRANC RATE AND INCREASING
MONEY SUPPLY UPON REPAYMENT. NZZ ADDED THAT
POSSIBLE REINTRODUCTION OF MINIMUM FOREIGN
EXCHANGE RESERVES AND ADDITIONAL STERILIZATION
ORDERS WOULD HAVE LIMITED MONETARY POLICY APPLICATION.

5. CHIASSO AFFAIR: PRESS REPORTED THAT PAST
AND PRESENT MEMBERS OF MANAGING DIRS AND INTERNAL
BANK EXAMINERS HAD BEEN ENTERTAINED
ROYALLY IN CHIASSO AND ITALY BY CHIASSO BRANCH
MANAGER KUHREMIER. THERE WAS ADDITIONAL
ALLEGATION THAT SENIOR CREDIT SUISSE OFFICER
HAD SOLD LARGE AMOUNT OF CREDIT SUISSE SHARES
BEFORE SCANDAL BECAME FULLY PUBLIC ON APR 25.
SNB ANNOUNCED IT WILL INVESTIGATE THESE
ALLEGATIONS. CREDIT SUISSE ADMITTED THAT IT
PURCHASED ITS OWN STOCK TO SUPPORT PRICE
BUT DENIED KNOWLEDGE THAT ANY BANK OFFICIALS HAD
SOUGHT TO TAKE ADVANTAGE OF INSIDER INFO
TO SELL IN ADVANCE OF SHARE PRICE DROP.

6. BALLY AFFAIR: FEDERAL JUSTICE AND POLICE
DEPT HAS ORDERED BALLY MAJORITY SHAREHOLDER
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PAGE 03 BERN 03397 02 OF 02 270926Z

WERNER REY TO DISCLOSE SOURCE OF FUNDS WITH
WHICH HE PURCHASED BALLY STOCK AND OVERSEAS
DEVELOPMENT BANK. FJP ORDER IS BASED ON SO CALLED
"LEX FUGLER" THAT PROHIBITS PURCHASE
OF BUILDINGS BY FOREIGNERS, WHICH WOULD BE
CASE FOR BALLY PROPERTIES IF REY HAD BEEN
FINANCED BY AND ACTED ON BEHALF OF FOREIGN
INTERESTS. PRESS REPORTED REY SOLD 5,000
BALLY SHARES LAST WEEK. HE NOW HOLDS 43,000
OUT OF TOTAL 108,000 SHARES. SOME 86,000
SHARES WERE REPRESENTED AT LAST SHAREHOLDERS
MEETING. REY MIGHT BE UNABLE TO OBTAIN ABSOLUTE
MAJORITY VOTE NEEDED TO RETAIN CONTROL OF BALLY
AT NEXT SHAREHOLDERS MEETING IN SEP, THOUGH HE REPORTEDLY
HOLDS REPURCHASE OPTION ON STOCK JUST SOLD. CRIMINAL
COMPLAINT WAS FILED WITH ZURICH POLICE AGAINST REY BY PRIVATE
ZURICH CITIZEN, ALLEGING CRIMINAL MISMANAGEMENT OF BALLY.

7. DEPOSIT INSURANCE: SWISS BANK COMMISSION
SAID IT EXPECTS SWISS BANKERS' ASSN TO PRODUCE
COMPREHENSIVE PLAN FOR DEPOSIT INSURANCE TO
PROTECT SMALL DEPOSITORS BY END SEP. SUGGESTED SYSTEM
WOULD BE FOR SNB TO ADMINISTER DEPOSIT INSURANCE PLAN
AND DETERMINE RATES PAID BY BANKS FOR COVERAGE. ALL BANKS
WOULD BE COVERED, EXCEPT CANTONAL BANKS WHICH HAVE
CANTONAL GUARANTEE AND CREDIT UNIONS WHICH ARE
BACKED BY ASSN OF CREDIT UNIONS. UNDER EXISTING SWISS
PRACTICE, SAVINGS ACCOUNT HOLDERS ARE IN PREFERRED
POSITION IN CASE OF BANK FAILURE BUT AMOUNT OF ACTUAL
RECOVERY DEPENDS UPON CIRCUMSTANCE OF BANK.

8. ALGERIA: GENEVA CLAIMS COURT PUBLISHED ORDER AGAINST
GOVT OF ALGERIA TO PAY SF 520,000 COURT COSTS RESULTING FROM
1974 COURT DECISION DISALLOWING ITS ATTEMPT TO RECOVER
ALGERIAN FLN FUNDS DEPOSITED IN BANQUE COMMERCIALE ARABE
(BCA) BY MOHAMED KHIDER. PRESS REPORTED THAT FEDERAL
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PAGE 04 BERN 03397 02 OF 02 270926Z

POLITICAL DEPT DECLINED TO PRESENT BCA CLAIM FOR COURT
COSTS THROUGH DIPLOMATIC CHANNELS. PUBLICATION OF CLAIM
REPORTEDLY SAPRKED ALGERIAN PRESS ATTACK AGAINST SWISS
BANKING PRACTICES.
DAVIS

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